

ACTIVITY 4.3

Expanding privately

From the article below find and make a note of the answers to the following questions.

- ▶ How do private limited companies raise capital?
- ▶ What encourages people to buy shares in the ownership of a company?
- ▶ Who decides who will manage the company?
- ▶ What are the main advantages and disadvantages of a private limited company?

Local Business News

BBS builds for the future

The BBS partnership, owners of the chain of home improvement stores, has become a private limited company following a private issue of shares. The sale of shares has raised \$500,000 in new capital to finance expansion.

Head of Sales and Marketing, Koji Mao, explained the attraction. 'We are a growing and profitable business. The more profit we make the more dividends our shareholders will receive. The only downside is they could lose their investment if the business fails, but they have no responsibility for business debts.'

Serge Buchar will hold 51 per cent of the new shares in BBS and will continue as Managing Director, but all shareholders will be able to vote on major company decisions and the election of other members of the Board of Directors to run the company.

Finance Director, Prema Mangesh, has been busy preparing all the legal documents required to form a limited company.

Founding owner Serge Buchar, and now Managing Director of BBS Ltd., explained his plans to expand the number and size of stores, and to develop the country's first zero carbon housing development.

'This all requires significant new capital' he said, 'and we did not want to take on an expensive bank loan. So we decided to incorporate and to invite friends, family, our employees and our suppliers to buy shares in the company.'

'It has been a difficult process at times' Prema explained. 'We have spent a lot of time and money getting the legal and financial advice we need to incorporate and sell shares.'

Limited companies are also required to keep and publish detailed annual accounts of their revenues and profits, capital, business loans and director's salaries.

'Yes, quite a list,' she sighed.



Advantages of a private limited company

1 They are a popular form of organization for sole traders or partnerships seeking to raise additional capital

The sale of shares can help small business owners raise **permanent capital** that never has to be repaid to the original investors. This is because shareholders who buys shares will have to sell their shares to other investors to get their money back. The sale of shares is therefore a much cheaper form of finance for business owners than loans from banks that have to repaid with interest. ▶ 3.1

ACTIVITY 4.4

Going public

From the article below find and make a note of the answers to the following questions.

- ▶ Why is it likely to be easier for a public limited company to raise capital than a private limited company?
- ▶ Why are the original owners of BBS now more at risk of losing overall control of their company?
- ▶ How much share capital does BBS plan to raise from the sale of new shares?
- ▶ What are the main advantages and disadvantages of a public limited company?

Global Times

BBS cements its position on stock market

Home improvement expert BBS has gone from strength to strength since owner Serge Buchar started the retail chain just four years ago. But today's announcement that it has received the green light to issue shares for sale to the public paints a bright future for the company.

'We plan to expand into all major cities nationwide and open our first superstore in Europe' explained founding owner Serge Buchar. 'This of course requires a significant injection of new capital, but our projections for future growth and profitability are very healthy. We have already received a lot of interest from new investors.'

The new issue of 1,500,000 shares with a face value of \$10 each will raise \$15 million in permanent capital for the business. 'Our business model is to keep bank debt as low as possible' explained Serge. 'Loan repayments and interest charges reduce profits. Share capital provides a low-cost source of finance that we never have to repay.'

Obtaining a listing on a stock exchange to sell shares publicly can, however, be a very involved and expensive business.

'We have worked closely with the governing body of the stock exchange to ensure that we have a sound business model and sufficient financial strength to attract new investors' said Finance Director, Prema Mangesh. 'Full information about the company and how to apply for shares is contained in a detailed prospectus.'

'We plan to issue this next week along with our annual accounts, and also publish it in all major national newspapers.'

However, Prema's position could be at risk if powerful new shareholders want to elect new board members to key positions such as Finance.

'That doesn't worry me' she said. 'All shareholders including me will want the most highly skilled, motivated and honest people in key board roles. I have a strong record of achievement with the company but if there is someone better then so be it.'

Much of course will depend on who Serge Buchar wants on his board. He will remain the majority shareholder in BBS plc. Combined with the shareholdings of original owners Prema Mangesh and Koji Mao, he will retain the controlling interest in the company.

